GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Andhra Pradesh Value Added Tax Act, 2005 - Construction activity in the State of Andhra Pradesh - Insisting all the Contractors/Concessionaires engaged in the construction of infrastructure projects for Government, to procure materials/inputs within the State – Orders – Issued.

REVENUE (COMMERCIAL TAXES-II) DEPARTMENT

G.O.Ms.No.347 **Dated:27-07-2016.**

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O R D E R:

The State of Andhra Pradesh is witnessing brisk construction activity in the Capital & other regions involving huge investments by both Government and private players. The construction activity involves purchase of large quantities of construction material such as Iron and Steel, Cement, Timber, Electrical goods,Sanitary ware, Hard ware, etc. Most of these goods are taxable at the rate of 14.5 % under the Andhra Pradesh Value Added Tax (APVAT) Act, 2005. Only Iron and Steel is taxable at the rate of 5%. On an average, the material component in civil works will be around 70% of total cost. Consequently the State should get substantial tax revenue if all the purchases are made from the dealers within the State. However, the provisions of the Central Sales Tax (CST) Act facilitate inter-state purchase of goods by paying 2% CST against 'C'-form. Therefore, the agencies involved in the construction activity are likely to go for inter-state purchases instead of intra-state purchases. This is true especially in the case of works contractors who are dealers by definition under the APVAT Act and are eligible to issue 'C'-forms for the inter-state purchases.

2. The tax liability of works contractor engaged for construction activity is worked out below to highlight the difference in his tax burden depending on his option for intra-state or inter-state purchase of the goods used in the works.

3. In case the works contractor purchases goods from the dealers within the State of Andhra Pradesh, they are liable to pay VAT @ 14.5%. In case, he opts for composition, he is again liable to pay 5% tax on the total turnover without input tax credit. Therefore, the tax burden on the works contractor works out to 19.5% (14.5% + 5%). If he goes for inter-state purchase of goods from other States by paying 2% CST with 'C'-form and opts for composition, his total tax burden would come to only 7% (2% + 5%). Therefore, the works contractor will definitely go for inter-state purchase of goods instead of local purchases. The huge disparity between the local VAT rate and the CST rate will lead to Trade diversion and also loss of revenue to the State.

4. Therefore, it is necessary that a solution to this problem of trade diversion and revenue loss should be found urgently before the construction activity in Andhra Pradesh Capital Region Development Authority picks up. One solution suggested is to incorporate in the agreements with the Contractors or Concessionaires in PPP Projects, a provision that they should necessarily procure goods within the State, if the goods of the desired quality and in required quantity are available in Andhra Pradesh market at the same price (excluding tax) for which they are sold in the other States.

P.T.O.,

5. Government after carefully examining the matter, hereby direct all the Government Departments and Government Bodies to insist on purchase of goods by the Contractors/Concessionaires engaged in the construction of infrastructure projects including those in PPP mode from the dealers within the State to the extent they are available in the required quantity and desired quality and the price excluding tax is competitive, by incorporating suitable provisions in the contract agreements.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

SATYA PRAKASH TUCKER
CHIEF SECRETARY TO GOVERNEMNT

To
All the Secretariat Departments (5 copies each).
All Heads of Departments of the State Government **through** their respective Secretariat Departments for its compliance.
The Chief Commissioner of Land Administration, Andhra Pradesh, Hyderabad with a request to issue necessary instructions to all the concerned in the Department
The Commissioner of Commercial Taxes, Andhra Pradesh, Hyderabad with a request to issue necessary instructions to all the concerned in the Department.
The Commissioner, Andhra Pradesh Capital Region Development Authority, Vijayawada.
All the Collectors and District Magistrates in the State of Andhra Pradesh.
Copy to:
The General Administration (Vigilance & Enforcement) Department, B.R.K.R.Govt. Offices Building Complex, Tank Bund Road, Hyderabad.
The Secretary, Sales Tax Appellate Tribunal, D.No.60-50-30/12(2), Meghana Towers, Opp:Gurudwara Bus Stop, Visakhapatnam-530 013.
The State Representative before the Sales Tax Appellate Tribunal, Office of the Secretary, Sales Tax Appellate Tribunal, D.No.50-50-30/12(2), Meghana Towers, Opp:Gurudwara Bus Stop, Visakhapatnam-530 013.
The Director General, General Administration (Vigilance & Enforcement) Dept., B.R.K.R.Govt. Offices Building Complex, Tank Bund Road, Hyderabad.
The Director of Treasuries & Accounts, Andhra Pradesh, Hyderabad with a request to issue necessary instructions to the concerned in the matter.
The Accountant General, Andhra Pradesh, Hyderabad.
The Finance Department, A.P.Secretariat, Hyderabad.
The P.S. to Principal Secretary to the Hon'ble Chief Minister.
The P.S. to the Hon'ble Minister (Finance & Commercial Taxes)
The P.S. to the Chief Secretary to Government.
The P.S. to the Special Chief Secretary to Government (CT, Ex & Regn.&Stamps)
S.f./S.c.

// FORWARDED :: BY ORDER//

SECTION OFFICER